

Message Text

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11

ACTION NEA-10

INFO OCT-01 EUR-08 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-04 FPC-01 H-01

INR-05 INT-05 L-01 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-02 SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01

PRS-01 USIA-06 /089 W

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R 040700Z NOV 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 1399

INFO AMEMBASSY ABU DHABI

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

C O N F I D E N T I A L KUWAIT 4728

EO 11652: GDS

TAGS: ENRG KU

SUBJ: EXXON DISCUSSIONS IN KUWAIT

SUMMARY: IN MEETING WITH AMBASSADOR NOV 2 EXXON VICE PRESIDENT
PIERCY OUTLINED GROWING CONCERN HIS COMPANY THAT SINGLE OIL
PRICE SYSTEM PROPOSED BY OPEC WILL CREATE SERIOUS TAX AND OTHER
PROBLEMS FOR US MAJORS. HE ALSO SAID INVESTMENT BY EXXON AND
OTHER ARAMCO SHAREHOLDERS IN GULF-AREA INDUSTRIES WILL BE
LIMITED DUE LACK AVAILABLE FUNDS. END SUMMARY

1. ON NOV 2 EXXON SENIOR VICE PRESIDENT GEORGE PIERCY CALLED
ON AMBASSADOR FOLLOWING MEETING WITH MIN FIN & PET ATEEQI.
SAID PURPOSE OF VISIT TO KUWAIT WAS TO A) INTRODUCE EXXON MIDDLE
EAST INDUSTRIES, INC PRESIDENT A.K. WOLGAST AND VICE PRESIDENT
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JOHN T. BAKER; B) INVESTIGATE AVAILABILITY AND PRICE OF KUWAITI

PARTICIPATION OIL THAT COULD BE PURCHASED BY EXXON; AND C) ENSURE THAT GOK OFFICIALS UNDERSTOOD RAMIFICATIONS FOR US MAJORS OF SINGLE PRICE SYSTEM PROPOSED BY OPEC WORKING COMMITTEE ON OIL PRICING.

2. PIERCY SAID FORMATION EXXON MIDDLE EAST INDUSTRIES, INC, LONG OVERDUE. COMPANY WOULD HAVE TWO MAIN PURPOSES, ACQUISITION OF CRUDE AND INVOLVEMENT IN INDUSTRIAL DEVELOPMENT PROJECTS IN MIDDLE EAST AREA. EXXON BELIEVED SUBSIDIARY'S ACTIVITIES WOULD BE LIMITED IN SHORT TERM BECAUSE SUFFICIENT CRUDE AVAILABLE FROM OTHER SOURCES AND BECAUSE ENORMOUS NEED FOR EXXON (AND THAT OF OTHER ARAMCO SHAREHOLDERS) CAPITAL IN AREAS OUTSIDE MIDDLE EAST (I.E., NORTH SLOPE AND NORTH SEA) WOULD LIMIT ABILITY COMPANY MAKE FUNDS AVAILABLE FOR LOCAL INVESTMENT. PIERCY OBSERVED THAT ATEEQI WAS NOT PREPARED TO OFFER PARTICIPATION CRUDE AT REASONABLE PRICE AT THIS TIME. KUWAITI CRUDE WAS HARD TO HANDLE AND NOT IN DEMAND UNDER PRESENT CIRCUMSTANCES.

3. PIERCY THEN WARMED TO OBVIOUS PRINCIPAL PURPOSE VISIT. HE DESCRIBED TAX PROBLEMS CREATED FOR US AND UK MAJORS BY SHIFT TO SINGLE PRICE SYSTEM ALONG LINES PROPOSED BY IRANIANS AND OPEC WORKING GROUP. CLAIMED EXXON WOULD BE PLACED AT MAJOR DISADVANTAGE VIS A VIS SHELL SINCE DUTCH DO NOT TAX PROFITS EARNED ABROAD. ARGUED U.S. TAX CREDITS ON FOREIGN OIL MUST BE MAINTAINED AT "REASONABLE LEVEL" IF US COMPANIES ARE TO REMAIN COMPETITIVE OUTSIDE US. THIS COULD BE ACCOMPLISHED IF PRODUCER COUNTRIES WOULD COOPERATE. NO LOSS OF INCOME WOULD OCCUR AND MORAL STATUS OF PRODUCER COUNTRIES WOULD IMPROVE IF MAJOR COMPANIES' CONCESSIONARY STATUS MAINTAINED AND ADDITIONAL ROYALTY OR OTHER PAYMENT LEVIED AGAINST EQUITY OIL IN LIEU OF SINGLE PRICE SYSTEM. SAID HE HOPED OTHER US MAJORS AND BP WOULD MAKE SIMILAR REPRESENTATIONS TO PRODUCER GOVERNMENTS WHICH OWED THEM THIS SMALL ASSISTANCE IN LIGHT THEIR LONG INVOLVEMENT IN OIL SEARCH AND DEVELOPMENT IN HOST COUNTRIES. INDICATED ATEEQI SYMPATHETIC TO PROBLEM BUT NON-COMMITTAL.

4. IN BRIEF DISCUSSION CURRENT PETROLEUM ECONOMICS PIERCY OUTLINED NOW WIDELY-KNOWN EXXON CLAIM OF FAILURE EARN TRUE PROFITS ON OVERSEAS OPERATIONS DURING FIRST THREE QUARTERS
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CY-1974. SUGGESTED RECENT IRANIAN OFFER CONCESSIONS WOULD SET PATTERN FOR FUTURE OIL COMPANY OPERATIONS IN AREA AND THAT ONLY ADVANTAGE GAINED BY OPERATING COMPANIES WOULD BE RIGHT TO LIFT SOME PERCENTAGE OF CRUDE PRODUCED BUT WITHOUT SUBSTANTIAL PRICE DIFFERENTIAL. SPECULATED THAT PRODUCER AND CONSUMER GOVERNMENTS WOULD ALLOW PROFIT IN FIFTY CENTS PER BARREL RANGE. HE LAMENTED THE PASSING OF CONCESSIONARY ERA WHICH HAD WORKED WELL FOR CONSUMERS, PRODUCERS AND OIL COMPANIES ALIKE.

WHEN PRESSED, HE EXPRESSED VIEW THAT COST DIFFERENTIAL BETWEEN "EQUITY" AND "PARTICIPATION" CRUDE UNDER NEW IRANIAN FORMULA "COULD FOR EXAMPLE" BE FIVE TO SEVEN PERCENT. SUCH A DIFFERENTIAL WOULD REPRESENT THE PRACTICAL DIFFERENCE BETWEEN OUTRIGHT NATIONALIZATION AND TRUE PARTICIPATION WITH RESPECT TO INVESTMENT IN THE PRODUCING COUNTRIES.

5. PIERCY SAID HE PLANNED VISIT TEHRAN FOLLOWING STAY IN KUWAIT TO CARRY HIS MESSAGE TO GOI AND TO LEARN STATUS BALANCING MARGIN NEGOTIATIONS WHICH HE UNDERSTOOD NOW NEARLY COMPLETED.
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